# <u>Deposit Insurance Reform</u>

*BACKGROUND*

Federal "deposit" and "share" insurance is provided only by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Share Insurance Fund (NCUSIF), respectively. The FDIC is currently managing separate funds for banks and thrifts, which the FDIC would like to merge into a single fund. Additionally, there is some interest in increasing deposit insurance coverage above the current $100,000 level. The legislation introduced in the 108th Congress proposes several structural changes in the deposit insurance system for the FDIC, and proposes an increase in coverage levels for both the FDIC and the NCUSIF.

*LEGISLATIVE STATUS*

<u>U.S. House of Representatives</u>

On February 4, House Financial Services Committee member Spencer Bachus (R-LA) introduced legislation (H.R. 522), the Federal Deposit Insurance Reform Act of 2003. The legislation, similar to legislation introduced by Rep. Bachus last year, would:

- Merge the BIF (Bank Insurance Fund) and SAIF (Savings Association Insurance Fund) funds into one fund within the FDIC called the Deposit Insurance Fund (DIF)
- Increase the deposit insurance coverage limit for depositors to $130,000 from $100,000
- Increase to $260,000 the amount of insurance for certain retirement accounts – including IRAs, Keoghs, 401(k) plans, and other such retirement plans recognized by the Internal Revenue Code
- Increase to $2 million the maximum amount of deposit insurance coverage for in-state municipal deposits
- Index (rounded to the nearest $10,000) the amount of insurance for inflation every 5 years
- Require NCUA to study the feasibility of establishing a voluntary deposit insurance system for deposits in excess of the maximum amount of deposit insurance and privatizing all deposit insurance at insured credit unions

On March 4, the Financial Services held a hearing at which the Chairman of the Federal Deposit Insurance Corporation, Donald E. Powell, testified.

On March 13, the Financial Services Committee approved the legislation as amended and the House of Representatives passed (411-11) the legislation (H.R. 522).

U.S. Senate

On January 29, Senate Banking Committee member Tim Johnson (D-SD) introduced legislation (S. 229), the Safe and Fair Deposit Insurance Act of 2003. The legislation is similar to legislation that Senator Johnson introduced last year.

The legislation would:

- Merge the BIF (Bank Insurance Fund) and SAIF (Savings Association Insurance Fund) funds into one fund within the FDIC called the Deposit Insurance Fund (DIF)
- Increase the deposit insurance coverage limit for depositors to $130,000 from $100,000
- Increase to $250,000 the amount of insurance for certain retirement accounts – including IRAs, Keoghs, 401(k) plans, and other such retirement plans recognized by the Internal Revenue Code
- Index (rounded to the nearest $10,000) the amount of insurance for inflation every 5 years
- Set the standard maximum insurance amount, or for in-state deposits, for banks, thrifts and credit unions to the lesser of $5 million or 80% of the excess over the standard maximum amount

The Senate Banking Committee held a hearing on the legislation on February 23. Federal regulators, including the Federal Reserve, FDIC, Comptroller of the Currency, Office of Thrift Supervision, and the Treasury Department, provided testimony focusing on the current state of the deposit insurance system, as well as the House and Senate proposals that would overhaul the system.

To read the hearing testimony, click on:
http://www.senate.gov/~banking/03_02hrg/022603/index.htm

*Updated: April 24, 2003*